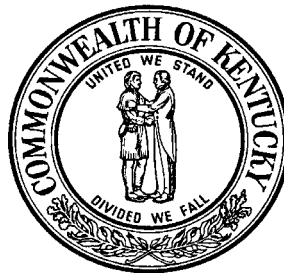


**REPORT OF THE AUDIT OF THE  
FORMER MCCREARY COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**August 13, 2002**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER MCCREARY COUNTY SHERIFF'S SETTLEMENT - 2001 TAXES**

**August 13, 2002**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for the former McCreary County Sheriff as of August 13, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

The former Sheriff collected taxes of \$2,203,661 for the districts for 2001 taxes, retaining commissions of \$73,922 to operate the Sheriff's office. The former Sheriff distributed taxes of \$2,128,861 to the districts for 2001 Taxes. Net refunds of \$913 are due to the former Sheriff from the taxing districts.

#### **Report Comment:**

- Lacks Adequate Segregation Of Duties

#### **Deposits:**

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Jimmie W. Greene, McCreary County Judge/Executive  
Honorable Regal Bruner, Former McCreary County Sheriff  
Honorable Clarence Perry, McCreary County Sheriff  
Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the former McCreary County Sheriff's Settlement - 2001 Taxes as of August 13, 2002. This tax settlement is the responsibility of the former McCreary County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former McCreary County Sheriff's taxes charged, credited, and paid as of August 13, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
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In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
September 17, 2003



MCCREARY COUNTY  
REGAL BRUNER, FORMER COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES

August 13, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 264,940	\$ 444,613	\$ 850,823	\$ 294,202
Tangible Personal Property	24,389	21,003	78,301	57,079
Intangible Personal Property				23,006
Fire Protection	1,133			
Taxes Increased Through				
Exonerations	69	61	222	76
Franchise Corporation	57,871	84,337	185,760	
Unmined Coal - 2001 Taxes	198	96	350	120
Oil and Gas Property Taxes	404	196	716	247
Penalties	3,740	6,203	11,958	4,302
Adjusted to Sheriff's Receipt	72	64	289	92
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	\$ 352,816	\$ 556,573	\$ 1,128,419	\$ 379,124
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Credits</u>				
Exonerations	\$ 6,882	\$ 11,528	\$ 21,999	\$ 7,517
Discounts	3,563	5,633	11,378	4,558
Delinquents:				
Real Estate	17,829	29,839	57,154	19,678
Tangible Personal Property	1,809	1,527	5,809	6,435
Intangible Personal Property				133
	<hr/>	<hr/>	<hr/>	<hr/>
Total Credits	\$ 30,083	\$ 48,527	\$ 96,340	\$ 38,321
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Collected	\$ 322,733	\$ 508,046	\$ 1,032,079	\$ 340,803
Less: Commissions *	14,004	14,184	30,962	14,772
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Due	\$ 308,729	\$ 493,862	\$ 1,001,117	\$ 326,031
Taxes Paid	308,815	493,755	1,000,563	325,728
Refunds (Current and Prior Year)	270	354	864	303
	<hr/>	<hr/>	<hr/>	<hr/>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	\$ (356)	\$ (247)	\$ (310)	\$ 0
	<hr/>	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY  
 REGAL BRUNER, FORMER COUNTY SHERIFF  
 SHERIFF'S SETTLEMENT - 2001 TAXES  
 August 13, 2002  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	933,621
3% on	\$	1,032,079
1% on	\$	227,961

\*\* Special Taxing Districts:

Library District	\$	(14)
Health District		12
Soil District		(9)
North McCreary Fire District		(105)
Central McCreary Fire District		(6)
South McCreary Fire District		(64)
Eagle-Sawyer Fire District		(45)
West McCreary Fire District		(16)
		<hr/>
Due Districts or (Refunds Due Sheriff)	\$	<u>(247)</u>

MCCREARY COUNTY  
NOTES TO FINANCIAL STATEMENTS

August 13, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of August 13, 2002, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

MCCREARY COUNTY  
NOTES TO FINANCIAL STATEMENT  
August 13, 2002  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 9, 2001 through August 13, 2002.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2001. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 27, 2001 through August 13, 2002.

Note 4. Interest Income

The former McCreary County Sheriff earned \$1,365 as interest income on 2001 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The former McCreary County Sheriff collected \$19,424 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The former McCreary County Sheriff collected \$804 of advertising costs and \$2,220 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The former Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

Note 7. Unexplained Receipts Should Be Escrowed

The former Sheriff should deposit unexplained receipts in an interest-bearing escrow account. According to KRS 393.110, the Sheriff's office should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2001 taxes, the former Sheriff had \$1,198 in unexplained receipts. Therefore, the former Sheriff should establish an escrow account and send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION



MCCREARY COUNTY  
REGAL BRUNER, FORMER COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

August 13, 2002

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS

Lacks Adequate Segregation Of Duties

The former Sheriff's office has a lack of adequate segregation of duties. We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend the following compensating controls be implemented to offset this internal control weakness.

- Bank reconciliation reviewed and agreed to the receipts and disbursements ledgers by the official. This review could be evidenced by initialing of the reconciliation by the official.
- Cash periodically recounted and deposited by the official
- Surprise cash counts by the official
- All disbursement checks to be signed by two people and one being the Sheriff

*Former Sheriff's Response:*

*We understand, but were unable to comply because of lack of resources.*

PRIOR YEAR:

None.

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

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**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former McCreary County Sheriff's Settlement - 2001 Taxes as of August 13, 2002, and have issued our report thereon dated September 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former McCreary County Sheriff's Settlement - 2001 Taxes as of August 13, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former McCreary County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
September 17, 2003

